

ALJ/GEW/avs

Decision 01-05-002 May 3, 2001

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company Regarding Year Six (1999-2000) Under Its Experimental Gas Cost Incentive Mechanism and Related Gas Supply Matters. (U 904 G)

Application 00-06-023
(Filed June 15, 2000)

INTERIM OPINION

1. Summary

We award Southern California Gas Company (SoCalGas) \$9,759,744.14 in shareholder incentives for savings accrued under its Gas Cost Incentive Mechanism (GCIM) during "Year Six," the 12-month period ending March 31, 2000. This proceeding has been bifurcated. This interim decision, concluding Phase I, deals with Year Six issues. We now commence Phase II, dealing with whether the GCIM should be extended into Year Seven and Year Eight with or without modification.

2. Procedural and Factual Background

Decision (D.) 94-03-076 approved a GCIM for SoCalGas. The GCIM is a ratemaking mechanism designed to provide regulatory controls superior to reasonableness reviews. We modified certain aspects of the SoCalGas GCIM in D.96-01-003 and D.97-06-061. The GCIM is structured to provide a profit incentive in addition to its rate of return for SoCalGas to make sound gas purchasing decisions. This is done by granting SoCalGas 50 percent of gas cost

A.00-06-023 ALJ/GEW/avs

savings it achieves by purchasing gas below certain published market price benchmarks and by disallowing 50% of gas costs above the benchmarks.

D.94-03-076 further provided that the Commission Advisory and Compliance Division (duties of which have since been assumed by the Energy Division) was to issue an evaluation report reviewing the program by August 1, 1996, for the Commission's consideration. For a number of reasons, including questions about the necessity for the evaluation, the report was never submitted. On June 8, 2000, the Commission in D.00-06-039 ordered the Energy Division to conduct such a study to guide the Commission in whether to extend operation of the GCIM on an annual basis beyond March 31, 2000.

The SoCalGas GCIM requires the utility to file an application by June 15 of each year to address the reasonableness of its operations and provide information regarding the GCIM results for the prior 12 months ending March 31. This is the sixth such application, and it covers the period from April 1, 1999 through March 31, 2000. Notice of the application was published in the Daily Calendar on June 21, 2000.

On July 21, ORA filed a response to the application in which it stated that it was preparing a monitoring and evaluation report that would be served on October 30, 2000.

Following a prehearing conference on August 16, 2000, Commissioner Bilas issued a Scoping Memo and Ruling bifurcating the proceeding and establishing the following schedule:

Phase I

October 30, 2000 – Report of ORA on its audit and evaluation of SoCalGas Year Six results.

November 13, 2000 – Comments on the ORA report by SoCalGas.

January 2001 – Phase I Proposed Decision (if no hearings are conducted).

Phase II

January 2, 2001 – Energy Division staff report on the SoCalGas GCIM.

January 23, 2001 – Prehearing conference to set dates for the Phase II proceeding.

The Scoping Memo and Ruling identified the issues in this proceeding as follows:

- Does the calculation of shareholder award for Year Six by SoCalGas conform to the requirements of the GCIM? (Phase I)
- Did the acquisition operations of SoCalGas during Year Six conform to the reasonableness requirements of the GCIM? (Phase I)
- Should the GCIM be extended into Year Seven with or without modification? (Phase II)
- Should the GCIM be extended into Year Eight and beyond and, if so, what modifications are required based on the Energy Division evaluation that was issued on January 4, 2001, and on the results of the gas restructuring decision in Investigation 99-07-003? (Phase II)

On June 22, 2000, the Commission issued Resolution ALJ 176-3041 which preliminarily categorized this proceeding as ratesetting and preliminarily determined that no hearings were necessary. It is now clear that Phase I of this proceeding requires no hearings, and the preliminary determinations are confirmed.

3. Discussion

ORA conducted a monitoring and evaluation review of the GCIM Year Six results submitted by SoCalGas in its application. ORA's audit confirms that cost savings of \$24.2 million below market benchmarks were generated and

ratepayers received a benefit of \$14.4 million. ORA also verified the proper calculation of the proposed shareholder award of approximately \$9.8 million which SoCalGas should be authorized to recover through the Purchased Gas Account, as requested in the application.

ORA's evaluation of the application and Year Six results concludes that the GCIM continues to provide benefits to the natural gas procurement customers of SoCalGas. In Year Six, procurement customers have accrued gas cost savings of \$14.4 million as measured against market-based benchmarks. In prior years of the GCIM, gas procurement customers of SoCalGas derived shared savings, as measured against market benchmarks, of: \$10.4 million in Year Five; \$4.8 million in Year Four; \$12.1 million in Year Three; \$4.3 million in Year Two; and \$0.7 million in Year One. The ratepayer savings, measured against market-based GCIM benchmarks, have totaled \$46.7 million over the first six years of the GCIM program.

In its report, ORA made observations concerning the natural gas market in Year Seven and its implications for ORA's next evaluation of the GCIM, stating:

"The last several months have seen profound changes in the natural gas market. From 1985 through early 2000, the range of natural gas prices averaged anywhere from \$1.50 per decatherm (dth) to \$3.00/dth. In 2000, the prices have skyrocketed to over \$5.00/dth at the California border. There have also been significant basin differentials between the cost of gas at the San Juan basin compared to the Permian basin. Additionally, the value of interstate pipeline capacity on El Paso Natural Gas Company and Transwestern Pipeline Company has jumped dramatically compared to prior years.

"Given these conditions, ORA will closely evaluate the operation and results of the GCIM in year seven. One specific area of review will include pipeline sales of gas made by SoCalGas. The GCIM provides SoCalGas flexibility and

opportunities to reduce core gas procurement costs through both mainline and border sales of gas. The recent market conditions, that have seen wide basin differentials and increased value for firm interstate capacity, could possibly result in some unintended consequences that result in shared savings of benefits that may be more appropriately allocated entirely to ratepayers.”

SoCalGas filed its response to the ORA report on November 13, 2000. The utility states that it worked extensively with ORA over a period of four months in analyzing the results of the GCIM in Year Six, and that it supports the ORA’s conclusions as to that year’s cost savings.

As to ORA’s preliminary observations on changes that may be considered for Year Seven and beyond, SoCalGas urges that consideration of modifications be reserved until after consideration of the Energy Division’s report that was issued on January 4, 2001, as contemplated in the Scoping Memo. ORA does not disagree with that position.

We find, after reviewing the SoCalGas application and ORA’s report, that SoCalGas reasonably managed its GCIM gas acquisitions in Year Six, achieving supply security and service reliability at low cost. SoCalGas has earned a shareholder award of \$9,759,744.14 under the Year Six GCIM. We will permit SoCalGas to adjust the Purchased Gas Account accordingly.

4. Comments on Draft Decision

The draft interim decision of the administrative law judge in this matter was mailed to the parties in accordance with Section 311(g)(1) of the Public Utilities Code and Rule 77.7 of the Rules of Practice and Procedure. SoCalGas filed comments in support of the interim decision, but it asked that the decision be modified to state that Year Seven of the GCIM ended on March 31, 2001, and that the question of continuing the GCIM in Year Seven is no longer subject to

review. As noted in the interim decision, Year Seven issues are to be addressed in Phase II of this proceeding and it is premature to address them now in the absence of a more complete record.

Findings of Fact

1. SoCalGas acquired gas for its core and core subscription customers at savings of approximately \$14.4 million over the GCIM benchmark in Year Six, the period April 1, 1999 through March 31, 2000.

2. Applying the GCIM formula yields a shareholder award of approximately \$9.8 million for Year Six.

3. D.00-06-039 provides for the Energy Division to issue an evaluation report in order to provide the Commission with guidance regarding the success or failure of the program and its continued operation.

4. The evaluation report was submitted on January 4, 2001.

Conclusions of Law

1. The SoCalGas request to adjust the Purchased Gas Account to reflect a shareholder award of \$9,759,744.14 under the Year Six GCIM should be granted.

2. SoCalGas reasonably managed its GCIM gas acquisitions in Year Six.

3. Whether modifications of the GCIM are required will be considered in Phase II of this proceeding.

INTERIM ORDER

IT IS ORDERED that:

1. Southern California Gas Company (SoCalGas) is authorized to adjust the Purchased Gas Account to recognize a shareholder award of \$9,759,744.14 under Year Six of its Gas Cost Incentive Mechanism (GCIM).

A.00-06-023 ALJ/GEW/avs

2. The Energy Division shall submit an evaluation report as set forth in Decision (D.) 94-03-076 and D. 00-06-039 on or before January 4, 2000; this requirement has been met.

3. Phase I of this proceeding does not require that hearings be held.

4. Application 00-06-023 remains open pending completion of Phase II of this proceeding.

This order is effective today.

Dated May 3, 2001, at San Francisco, California.

LORETTA M. LYNCH
President
HENRY M. DUQUE
RICHARD A. BILAS
GEOFFREY F. BROWN
Commissioners

I abstain.

/s/ CARL W. WOOD
Commissioner